MARCH 28, 1983

CHEMICAL & ENGINEERING

NEWS

Breakeven points lowered for chemical plants Page 22

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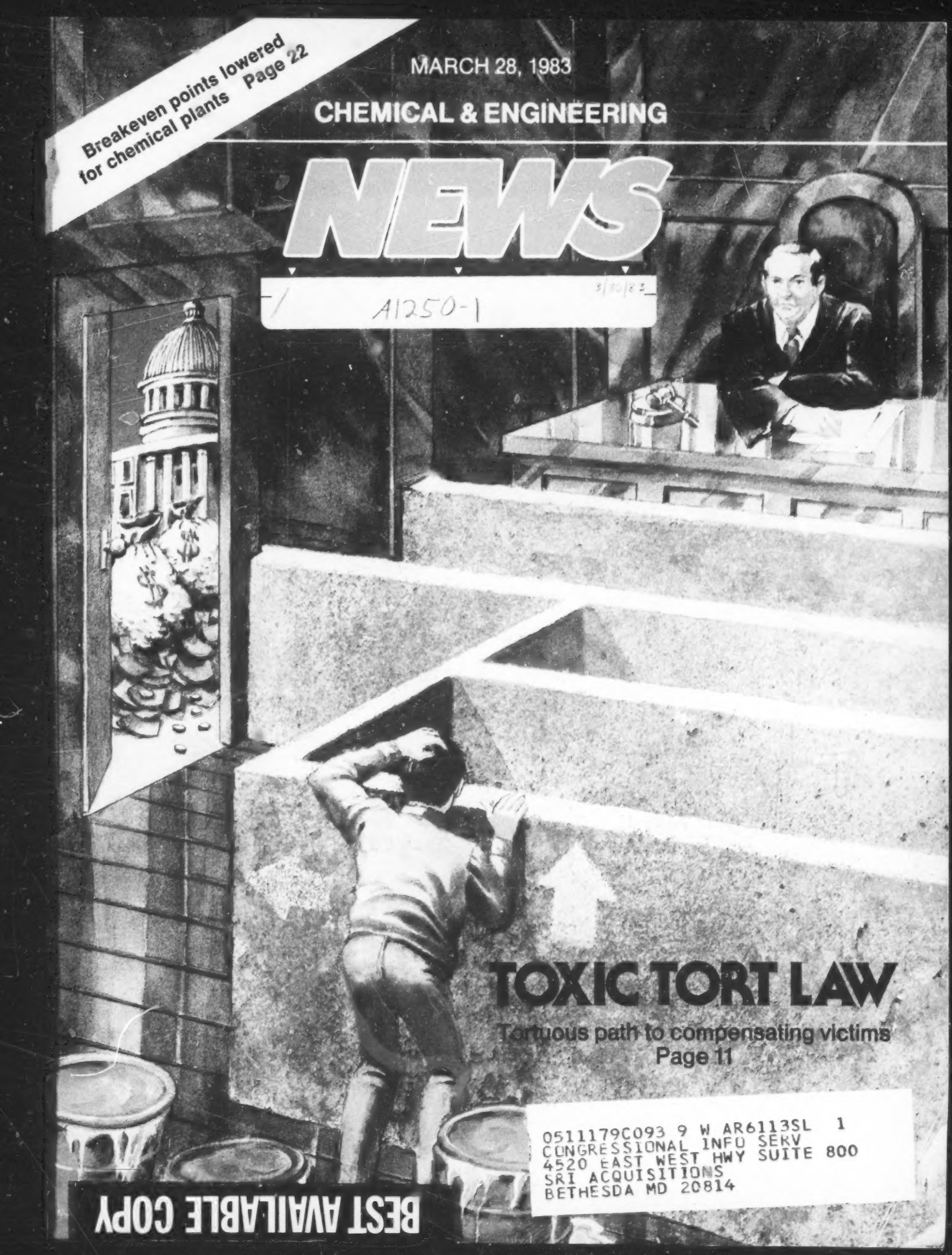

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claimed by the biggest firms. In some ways, it is much easier for the large commodity chemical producers to lower their break-even points. As Salomon Brothers' Ravitz says of the capital-intensive majors, "Those with the largest costs have the easiest row to hoe."

Many of these cost-cutting options are unavailable to specialty chemical producers. Not being nearly as capital-intensive, specialty companies cannot reap the same benefits from shutting down a plant that commodity firms can. Even more to the point, employment cutbacks are extremely dangerous for specialty makers because of the overriding importance of marketing and service in their businesses.

"Specialty companies find it hard to cut their break-even points significantly," says Charles J. Rose, specialty chemicals analyst at Oppenheimer & Co. "They can't afford to chop break-even points that much. The guts of their business is people."

Rose, who estimates that specialty producers probably have not been able to lower their break-even points by more than a few percentage points on average, points out as well that as the specialty chemical business becomes more competitive, which it is doing rapidly, cutting employee levels becomes even more problematic.

For those companies that have achieved a reduction of 10% or so in their break-even points, the question now is how long they will be able to keep it that way.

"It's not theirs to keep forever," warns First Boston's Raman. "It's a moving target. I don't think there's a good appreciation of that. Everybody's running around saying, 'Hey, the break-even points are down, and therefore as soon as demand comes up we're going to print money.' I don't agree with that at all."

Most analysts, however, think the lowered break-even points are good cause for optimism. "Will they be able to continue to maintain these break-even points?" says Hutton's Henry. "I think the answer is yes."

"It's real," declares Citibank's Todd. "When production turns up, there will be a direct effect on the bottom line." □

Chemical firms spending more on R&D labs

U.S. industry is spending a lot more on facilities for R&D than it has in the past, and the chemical industry is certainly taking a healthy part in this trend.

This is one of the findings in a study funded by Flad & Associates, a laboratory design and engineering firm in Madison, Wis.

The study, which was carried out by faculty and students of the University of Wisconsin, Madison, under the direction of Michael J. Houston, associate professor, school of business, with help from the National Science Foundation, shows that capital spending for industrial R&D laboratories in the U.S. is expected to increase 60% in 1982–84 period. Capital spending for laboratory equipment probably will increase about 31% over the same period. Flad surveyed 682 laboratory managers to learn these results.

According to the study, the chemical industry will take a big part. Almost all of the chemical companies surveyed reported that they planned to spend much more in 1982–84 than in the 1979–81 period.

For instance, paints and allied products, which show the largest increase among chemical-related industries, plan to increase laboratory capital spending to $4.96 million per company in 1982–84. This is 291% above average spending of $1.28 million for the previous three years.

The largest average spending per company and the second largest percentage increase show up in drugs and related products, where a boost of 166% will take spending to an average of $6.03 million per company in 1982–84 from the previous three years.

In both per cent increase and total expenditures per company, drugs are followed by industrial organic chemicals, where spending per company in 1982–84 will average $5.05 million, up 132% from the previous period.

Agricultural chemicals, which like drugs are heavily R&D oriented, will get a 129% increase to $3.62 million per company.

The only decrease in laboratory facilities spending is for industrial inorganic chemicals, where spending per company will fall 21% to $1.06 million from 1979–81. This category and one other also have the only drops in the planned laboratory equipment spending. Expenditures for equipment will fall 1% in 1982–84 to $2.25 million for industrial inorganic chemicals. And equipment spending for cleaners and toilet goods will fall 24% to $438,000 per company.

Paints and allied products companies plan the largest increase in equipment spending, just as they do in facilities spending. The average per company will increase 70% to $1.84 million. Next come drugs and related products, where per-company spending will rise 50% to $2.25 million.

Agricultural chemicals also will get a boost, with equipment spending rising 55% to $1.40 million. □

R&D plant spending will outpace that for equipment for the period 1982 through 1984

Average per company, $ thousands	Plant spending			Equipment spending		
	1982–84	1979–81	% change	1982–84	1979–81	% change
Industrial inorganic chemicals	$1063	$1350	−21%	$2248	$2274	−1%
Plastic materials & synthetics	4727	2329	103	3491	2545	37
Drugs & related products	6031	2267	166	2252	1408	60
Cleaners & toilet goods	3524	1901	85	438	574	−24
Paints & allied products	4960	1267	291	1841	1081	70
Industrial organic chemicals	5049	2177	132	4291	3285	31
Agricultural chemicals	3617	1581	129	1402	906	55
Miscellaneous chemical products	1771	1008	76	1685	1320	28

Source: Flad & Associates